

# THE EXPERIENCES OF THE NEW MEMBER STATES IN THE STRUCTURAL FUNDS FIELD. LESSONS FOR ROMANIA

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**Abstract:** The absorption difficulties usually arise in the Central and East-European area, and they are inflicted by a series of political issues, among which rank also the structure and organization differences or the incipient stage of development of local democracy. The absorption of structural funds increased rather slowly in time, due to the fact that it took them quite some time to create the necessary executive ability in order to check the projects, efficient implementing, ensuring the common financing and settling up the funds from EU after delivering the adequate documentation. The experiences of the new member states show that the absorption of the structural funds requires a solid preparation of central administration in order to establish national frameworks of solid policies, the coordination between ministries, national programmes well made and the implementing ability. The paper presents comparisons regarding the evaluation of the managing absorption capacity in Romania and in some countries that adhered and conclusions regarding the lessons that Romania has to learn.

## 1. New member states and structural funds

A very interesting perspective regarding the European Union and its projects occurs after analysing the manner in which the community distributes and manages the structural funds designated to the member states or to the states in train of accession. At the budgetary level, the member states contribute to the budget of the European Union and receive a certain ratio from the budgets constituted like this. The funds are assigned to the member states by means of two funds, denominated Structural Funds and Cohesion Funds. The Structural Funds are granted so that each member state to reach a minimum level of infrastructure development in proportion to the European standards, the investments being orientated towards the economic rise, places of employment and the development of the regions less developed, and the Cohesion Funds aim to reduce the differences between the European regions and countries. In May 2004, 10 countries accessed to European Union, of which eight were post-Socialist countries (UE8). Another two countries (Romania and Bulgaria) accessed in 2007. Croatia and Turkey began the accession negotiations while Macedonia was granted the statute of candidate country. Another Balkan countries (such as Serbia and Montenegro) can be granted this statute in the future. The countries which accessed recently to European Union (Estonia, Hungary, Czech Republic, Cyprus, Malta and Poland) received the amount of 24,4 billion euro as Structural Funds for 2004-2006.

**Table 1**  
**Distributions as Structural Funds for the new member states for 2004-2006**

Country	Objective 1	Objective 2	Objective 3	Interreg	Equal	Cohesion fund	Total in thousand E
Czech Republic	1454.27	71.30	58.79	68.68	32.10	936.05	2621.19
Cyprus	0.00	28.02	21.95	4.30	1.81	53.94	113.44
Estonia	371.36	0.00	0.00	10.60	4.07	309.03	695.06
Hungary	1995.72	0.00	0.00	68.68	30.29	1112.67	3207.36
Latvia	625.57	0.00	0.00	15.26	8.03	515.43	1164.29
Lithuania	895.17	0.00	0.00	22.49	11.87	608.17	1537.70
Malta	63.19	0.00	0.00	2.7	1.24	21.94	88.74
Poland	8275.81	0.00	0.00	221.36	133.93	4178.60	12809.70
Slovenia	237.51	0.00	0.00	23.65	6.44	188.71	456.31
Slovakia	1041.04	0.00	0.00	41.47	22.27	570.50	1757.39
Total	14959.64	136.49	125.68	478.86	252.05	8495.04	24451.18

Source: <http://europa.eu/rapid/pressReleasesAction.do>

Almost all new members have a Gross Domestic Product per inhabitant below 75% of the EU average. Therefore, all new member states were entitled to structural funds and through which the new countries must be aided to align to the "richer" neighbours. The magnitude of the structural funds was very important, representing 4 percentages of the Gross Domestic Product (almost half of the amount of the supporting funds from the period of pre-accession). If the structural funds are used as appropriate, then they can ensure for the new member states opportunities of economic rise, social cohesion and development of human resources. As also shown in table 1, the efficient absorption of the structural funds brought along many challenges for the member states. These challenges are reflected both by the magnitude of these funds and by the rigid and complex requirements for their use.

From the qualitative point of view, an efficient absorption also requires a democratic harmonization of the necessities and priorities of the partners – national right, to the structural funds – as well as partnerships with other central governments, municipalities, non-governmental organizations (NGO) as well as private companies.

One of the main issues mentioned recently in the press articles and comments upon the expansion of European Union is precisely the low capacity or the incapacity of the European countries and which accessed to EU to absorb the community funds, phenomena which is assigned by the financial specialists and analysts to the financial fragility of these states. Also, it is very often mentioned the extremely low capacity of these states to prepare eligible projects for the absorption of the community funds. The absorption difficulties usually arise in the Central and East-European area, and they are inflicted by a series of political issues, among which rank also the structure and organization differences or the incipient stage of development of local democracy. This is due to the fact that the countries from the East initiated in the early 90's a decentralization process, and currently the local collectivities dispose of resolution bodies democratically built, elected through universal suffrage and having increased abilities. In this context, the role of these collectivities becomes higher and higher from the financial point of view, in a time when the imposed requirements imply a specific effort in order to receive funds and to commonly finance the community projects. The

absorption of the funds is made up to the standard of local communities, grounded on the extended abilities in a progressive manner at regional level. Therefore, regarding the education, the local collectivities are in charge with the maintenance and construction of buildings, primary and secondary schools, as well as the remuneration of the educational personnel (the management of the higher education institutions is ensured by the local collectivities only in Poland).

In the real estate field, the collectivities are in charge with the construction of the houses and the management in the real estate field, even if a great deal of apartments were sold during the transition period towards the market economy.

Regarding the social sector, a part of the expenses with heating, water and public transport for the families without incomes makes the object of the financing from local budgets. Also, the hospitals, public safety, transport, distribution of drinking water, water recycling and domestic waste, gases and heat are managed at the local level.

The expansion of abilities determined a raise of the expenses of local collectivities for the East-European countries up to a percentage of 9% of the Gross Domestic Product in 2002. However, even if records a raise, the percentage is highly inferior comparing to the one from European Union. Here emerges the paradox, as the countries from East spend a too low percentage in order to absorb entirely the European funds.

An index to measure the absorption ability of the funds is represented by the investments which a certain country can make. The expenses with investments recorded a trend of increasing and represents in the countries from Central and East Europe a relative superior level comparing to those from the European Union (2% of GDP, on average, comparing to 1,5% on average, in EU). In Romania and Bulgaria, these are lower, recording under 1%.

The analysis of the experience of new member states may lead to learning certain lessons (good and bad) regarding the countries in train of accession and the candidate countries.

**Table 2**

**Absorption rates of structural funds  
(March 2005, percentages from the established funds)**

<b>Recipient</b>	<b>The lowest absorption rates</b>	<b>The highest absorption rates</b>
UE8 countries	10 percentages (Czech Republic, Lithuania, Slovenia)	15 percentages (Hungary)
UE15 countries	30 percentages (Holland)	60 percentages (Ireland)

*Source: Data base DG Regio Infoview, report of working personnel of the commission, annex to the 16th Annual Report regarding the implementing the structural funds 2004, EU Commission.*

Nevertheless, most countries which accessed to the European Union in 2004 proved until now to be *very efficient in contracting the funds*. Indeed, countries such as Slovenia contracted over the level of EU commitments in order to ensure the integral use of the funds if the implementing of some projects fails. In most countries the absorption of structural funds increased rather slowly in time. This due to the fact that it took them quite some *time to create the necessary executive ability in order to check the projects, efficient implementing, ensuring the common financing and settling up the funds from EU* after delivering the adequate documentation. For instance, Czech Republic and Poland had a very modest evolution in the beginning, so that in 2005 the applications for intermediary payments were of under 5 percentages from the commitments afferent to the period 2004-2006. Slovenia, Estonia and Hungary are

doing well, but Slovenia needed a year after the accession to start to draw structural funds. The flow diagram and procedures for these funds were just too complicated to be efficient. After amending the system at the beginning of 2005, Slovenia became the most competitive country of the new member states regarding the drawing of European funds. The integral absorption of structural funds represents a priority for the countries which accessed in 2004 (and it shall be the same in what Romania is concerned). Under the so called rule  $n+2$ , the new member states of 2004 must send the book debts afferent to the commitments during 2004-2006 until the end of 2008, which requires a special speedup of the absorption level in order to avoid the un-booking of the funds. The distribution increase for the period 2007-2013 shall intensify this challenge, but the European Commission has extended the granted term between contracting and settling up from 2 up to 3 years – at least until 2011, when the rule  $n+3$  shall revert to the current alternative of  $n+2$ . Slovenia and Estonia are situated in the diagram for reaching this objective, while other countries, especially the Czech Republic, Lithuania, Slovakia and Poland must powerfully speedup the absorption process unless they want to lose these funds.

The general requirements for managing the EU funds are defined by EU regulations, but the countries are free to find their own solutions according to this framework. Until now, we can identify *two models* within the new member states: **baltic countries**, which established the management round the Ministry of Finance which actuates both as payment authority and as management authority, and **the Central Europe countries** which ground on framework-systems less centralized, where the payment and management authorities are situated within the structure of some distinct institutions (the payment authority is always within the Ministry of Finance).

It's hard to say which of the models is more efficient: the leaders of the absorption process – Slovenia and Estonia – represent different models. However, there are two general lessons (Rosenberg and Sierhej, 2007): the first shows that in the beginning the frameworks were over-regulated, usually in order to prevent the inadequate use of the European funds, and the second lesson shows that the absorption process is aided by the existence of some powerful central management authority. Indeed, some countries seem to have learnt these lessons. For instance, at the end of 2005, Poland created a new ministry regarding the regional development, in order to consolidate the surveillance of the funds which in the beginning had been distributed to different ministries, thus speeding up the absorption process. In Slovenia – after a slow initial progress – the procedures were simplified, and the Prime Minister started to meet frequently with the managers for implementing the projects, on purpose to secure the progress of this process.

UNDP (United Nations Development Programme) made a comparative analysis of the absorption of structural funds in Ireland, Portugal, Czech Republic and Poland. Bulgaria was also included in this study, in order to allow an analysis for the preparations for accession. Below there are shown some of the *preliminary results*, emphasizing the subjects connected to the *national policies of the countries in train of accession*.

The experiences of the new member states show that the absorption of the structural funds requires a solid preparation of central administration in order to establish national frameworks of solid policies, the coordination between ministries, national programmes well made and the implementing ability. The partnerships with local and regional governments, private business sectors and non-governmental organizations (NGO) are also essential. Therefore, the preparation for the absorption of

structural funds refer less to the market democracy than to the modernization of political bureaucracy and facilitating the collaboration with local governments and non-governmental organizations (NGO).

As the instruments of pre-accession do not prepare entirely the countries for the absorption of structural funds, the state budgets must be supported during the pre-accession period. If they wait until the neighbourhood of accession or even if until the years when they become members, that may mean that the available resources can not be absorbed. The impact of the development of structural funds can be ameliorated through the incomplete integration within the public financing systems, especially in the shape of public acquisitions and of the impact of structural funds.

The accession process is sometimes accompanied by the decentralization, which has the intention to improve the efficiency of public administration by applying the principle of subsidiarity. These efforts are often seen as an accommodation of the management of structural funds which by definition have a powerful regional center.

The experience of Ireland, Portugal and of the new member states suggests that the decentralization and the ability to create funds for pre-accession must function hand in hand. But, in the countries whose low developed regions confront with the challenges of rigid development and possess financial resources and management ability relatively narrow, central governments must take over a leading role. Therefore results that the decentralization may be necessary – but not concerning the reasons of the absorption of structural funds. At the same time, using the centralized approaches shouldn't obstruct the consultative processes for building up a consensus or the implementing of a programme which reflects the local conditions.

The principle of the partnerships is in the centre of building up and using the instruments of after accession. It involves a close cooperation between the European Commission, central governments and subnationals, NGOs and private sectors in order to achieve mutual development targets. The partnerships may lead to the building up of joint stock and may draw common financings necessary for using the structural funds. While it often begins as an obligation enforced by Brussels, the principle of partnership applied by means of structural funds may gradually influence other sectors and thus becomes intrinsic, and it may lead to the accommodation both of the absorption and also the democratization and modernization of political processes at a national and sub-national level. As efficient partnerships require efficient partners, the absorption efforts shouldn't overlook the consolidation of the institutional ability of other participants. The well organized NGO sectors are very important from this point of view, as the cooperation can not be enforced "superiorly". Along with the position of representatives of civil society, the NGOs must acknowledge very well the procedure of structural funds.

Fortunately, the advantages which the NGOs receive from the structural funds offer powerful motivations for which ensure the NGOs commitment to the partnerships necessary for the absorption. Similar motivations are offered also to the municipalities, many of them being too small to generate common financings necessary to establish the funds. The experience of Portugal mainly demonstrates the important role which the associations of the municipalities play in accommodating the absorption of structural funds. The importance of private companies as beneficiaries of the structural funds increased recently, especially after the strategy from Lisbon of March 2000, which induced the EU to have until 2010 "the most competitive and dynamic economy in the world, grounded on knowledge." The structural funds are more and more used to support the commercialization of research and development and to grant-aid the

introduction of informational and communication technologies. The business associations play an important role as partners especially in supporting the small and medium enterprises to have access to structural funds.

## 2. The evaluation of absorption ability of structural funds

The European Commission introduced in 2002 a methodology used to evaluate the absorption ability from the candidate countries to accession. In this respect, the Commission ordered a series of studies which analyzed the absorption ability both from the point of view of some of the Member States (Ireland, Spain, Portugal, Germany), and from the sectorial point of view (management, programming, implementing, monitoring and evaluation and respectively financial and control management), (NEI Regional and Urban Development February 2002). According to this methodology, three stages must be taken into account in the evaluation of the absorption ability of the Structural Funds:

- **Design**, which is presented as an accession variable. The elements which define this stage create the conditions for the actual and efficient management of the structural funds. The design ability must be evaluated by comparing it to the requirements which result from the regulations regarding the structural funds.

- **Operation**, meaning in so far as the structural funds are actually and efficiently managed. *This stage can not be evaluated yet in Romania.* However, some indications about the operation of the future system may proceed from the analysis of the operation manner of the pre-accession instruments (Phare, ISPA, and SAPARD).

- **Performance**, meaning in so far as the structural funds were actually and efficiently managed. It is an accession variable, which measures the results. *The performance can only be evaluated ex-post*, at the end of the programming period. As a consequence, neither this stage can be evaluated in what Romania is concerned.

*Therefore we acknowledge that all that can currently be evaluated is the design manner, design of the institutional system which shall have the designation to implement the priorities and the measures financed from Structural Funds.*

Measuring the administrative ability implies the evaluation of **three elements** (i) structure, (ii) human resources and (iii) systems and instruments:

(i) **Structure** refers to the distinct distribution of the responsibilities and targets per institutions, or, rather, per units and departments of these institutions. This distribution refers to a series of targets connected to the stages of life cycle of managing the structural funds, meaning *the management, programming, implementing, monitoring and evaluation* and respectively *the financial and control management*. *Taking into account the stage where Romania lies from the point of view of these stages, only the evaluation of the first three of them is possible.* The structure has also in view the supervision and complementary bodies, such as the monitoring committees, evaluation, partnerships and so on.

(ii) **Human resources**, have in view the ability to particularize the targets and responsibilities up to the level of the position sheet, to estimate the number and skills of the personnel and to carry on the personnel recruitment activity.

This due to the fact that ensuring on time and maintaining an experienced personnel, qualified and motivated represents one of the factors which determine the success of managing the structural funds.

(iii) **Systems and instruments** have in view the existence of methods, instructions, manuals, systems, procedures, forms and so on. In other words, all these represent

adjuvant elements which may increase the efficiency of system operating. They allow the organizations to transform the wordless and implicit knowledge in explicit knowledge which can be shared inside and outside the organization. The existence of the systems and instruments reduces the vulnerability of the institutions (for instance, regarding the personnel offsets) and contributes to their efficient operation.

Combining the targets connected to the life cycle with the elements which define the administrative ability, it results a Matrix of Managing the Structural Funds (MMSF). Grounded on MMSF, the evaluation of managing ability of Structural Funds may be accomplished both on the vertical, and also on the horizontal. The evaluation leads to the placement in one of the following four categories:

- category A: powerful ability: system ready for the Structural Funds (at least 90% of the maximum score);
- category B: adequate ability, but the weak points must be approached (75-90% of the maximum score);
- category C: not yet sufficient ability, there are different and severe weaknesses which must be solved (50-75% of the maximum score);
- category D: insufficient ability, there isn't a base for the management of Structural Funds (under 50% of the maximum score).

The results of the evaluation can be used to obtain some information regarding:

- the recording of some progresses concerning the administrative ability;
- the actual equilibrium between the different horizontal parts of the management activity of Structural Funds; the attention must be headed to the areas which record lower performances;
- the actual equilibrium between the different vertical parts of the management activity of Structural Funds. Generally, the structures are those which would have to exist first, before human resources and systems and instruments.

A recent study made under the auspices of the European Institute from Romania had as a purpose the analysis of the managing ability to absorb the EU after accession funds and showed that this ability is stil insufficient due to the significant or manifold weaknesses which must be subdued or eliminated during the pre-accession period. (IER, 2006a). Another study (Horvat, 2004) makes an analysis grounded on the same methodology of the managing absorption ability regarding 5 countries: Czech Republic, Estonia, Hungary, Slovakia and Slovenia. Further we make a comparison of the achieved results and the afferent conclusions.

**Table 3**  
**Comparisons regarding the evaluation of the managing absorption ability in Romania, Czech Republic, Estonia, Hungary, Slovakia and Slovenia**

<b>Indicator</b>	<b>Romania</b>	<b>Hungary</b>	<b>Czech Rep.</b>	<b>Estonia</b>	<b>Slovakia</b>	<b>Slovenia</b>
Management	C (72%)	A (90%)	B (75%)	B (87%)	C (62%)	C (70%)
Programming	C (52%)	B (80%)	B (80%)	B (87%)	D (40%)	B (80%)
Implementing	C (53%)	C (72%)	C (56%)	C (68%)	C (52%)	C (52%)
Structure	B (76%)	B (84%)	B (78%)	A (94%)	B (79%)	B (74%)
Human resources	C (52%)	C (76%)	C (70%)	C (82%)	D (41%)	C (59%)
Systems and instruments	D (45%)	C (60%)	C (50%)	C (60%)	D (40%)	C (50%)

*Source: Data processed from Horvat, 2004 and IER, 2005*

Regarding the five member countries which accessed in 2004, it is acknowledged that only Hungary and Estonia succeeded in obtaining a A each, two Bs and three Cs, but in comparison to other countries one may say that they were capable enough to manage the Structural Funds, still existing a series of weaknesses. The Czech Republic and Slovenia obtained similar scores, the Czech Republic being a little superior in the management field, but in both countries there were enough and severe issues which had to be solved. Slovakia, with three Ds and two Cs, appeared as being not enough prepared for the management and implementing the structural funds, its situation being similar to Romania's situation. In what Romania is concerned, the evaluation shows an ability still in train of building up. But if we compare with the situation of other member countries in the same period of accession, we acknowledge that the unsolved issues may have a solution and the delays can be recovered. Thus, some of the most important issues which must be yet solved in connection to the increase and decrease of managing ability are those referring to the employment of labour force, in a more expanded partnership framework, promoting an education and continuous professional formation and correct application of work procedures.

### **3. Conclusions: Lessons for Romania**

How shall Romania avoid the issues which the old NMS confronted? The European funds offer Romania a unique improvement opportunity of the increase and speedup potential of the catching-up process. The pre-accession European funds made available to Romania – if they are going to be integrally used – represent an annual injection of funds of 3-5 percentages from the GDP, for the period 2007-2014. In order to understand the magnitude of this figure, we must say that the average of public stock expenses during 2004-2006 was of 3 percentages from the GDP, which also includes the exceptional raise of stock expenses at 3.7 % from the GDP in 2006.

The plain comparison of stock expenses execution in the last years with their potential in the future - if we take into consideration the EU funds – underlines the distinct challenge which the authorities confront regarding the absorption of the EU funds. The attached table shows the available amounts for each programme and the absorption level provisioned by the authorities. Another aspect which must be underlined is the fact that the level of actual absorption of pre-accession funds – having combined results concerning the big projects, especially in the field of infrastructure and environmental protection – sends a very serious message to Romanian authorities. Indeed, the achievement of the levels of absorption provisioned for the after accession funds assumes a special effort. It is necessary that this optimism to be supported by concrete measures which would lead to reaching the anticipated absorption level. Although a part of the EU transfers shall be made almost automatically (such as the transfers to agriculture – which exceed 1 percentage from the annual GDP - and the cash flow accommodation), most of the funds shall be distributed on the grounds of the projects elaborated at local and national level.



Table 4

**Romania: EU Funds – commitments and provisioned payments  
(in billion EUR in prices 2004)**

	Commitments			Provisioned payments			Provisioned expenses		
	2008	2009	Annual average 2010-2013	2008	2009	Annual average 2010-2013	2008	2009	Annual average 2010-2013
1 Durable increase	1770	2333	3000	1576	1971	2193	1012	1518	2193
2. Protection and management of natural resources	2379	2535	2900	1998	2139	2800	1749	2139	2800
3. EU-global player	1667	1035	80	1667	1035	80	1667	1035	80
4. Compensations (Shengen and cash flow accommodation)	132	131	0	132	131	0	132	131	0
5. Others	0	0	0	0	0	0	0	0	0

*Source: J.J.Fernandez-Ansola, After accession European Funds for Romania: realities and challenges*

Romania is a big country, with severe regional disparities, which requires a certain decentralization level. However, at least in the initial stage, it is essential the existence of a central management authority, with political support at a high level. In parallel, Romania must rapidly solve the ability of regional and municipal authorities which shall implement EU projects, and to ensure the adequate use of public funds. In addition, it is enforced the development of consultancy ability – more in the private sector- for the elaboration of the feasibility and technical studies afferent to the projects financed by the EU.

Romania has made progresses on most levels, but this effort is prolific only on long term and requires perseverance and patience: constant political support granted to the relevant authorities and their maintenance in position, independently from the political changes. The accomplishment of adjustments – which inevitably shall be necessary, due to the fact that the tests and errors shall indicate what is efficient and what is not for Romania, during the process of absorption of EU funds – shall be possible only when there would have accumulated enough knowledge at the institutions level.

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